BRITISH WAR FINANCE
1914-1917

BY

ALVA LEROY PRICKETT
A. B. University of Illinois,
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Ernest L. Bogart
In Charge of Thesis

David Kinley
Head of Department

Recommendation concurred in*

Committee
on
Final Examination*

*Required for doctor's degree but not for master's

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Chapter One

The Position of Great Britain at the Beginning of the War

In order to understand the War Finance of Great Britain 1914-1917 it is first necessary to have clearly in mind the economic condition of the country at the outbreak of hostilities. The state of trade, financial situation, debt, taxation, and standard of living must be passed in review with the purpose of showing the trend of the national policy and the degree of strength in the resources which war feeds upon.

(a) British Trade

The following table shows the trade returns of the United Kingdom 1903-1914 inclusive, the year ending December 31st: *

Imports (Year ending December 31st)

	1914	1913	1912
I Food, Drink & Tobacco	£297,939,705	290,397,304	280,764,126
II Raw Materials & Articles Mainly Unmfg'd.	236,470,757	281,923,889	275,713,533
III Articles Wholly or Mainly Manufactured	160,377,663	193,606,072	185,500,821

*The Economist (London) Supplements 1903-1914.

IV Miscell. & Unclassified (including Parcel Post)	2,644,524	3,106,694	2,918,034
Total	£697,432,649	769,033,959	744,896,514

	1911	1910	1909	1908
I	£264,334,176	257,788,416	254,333,628	244,248,108
II	248,162,717	261,242,032	220,153,047	203,488,744
III	165,578,789	156,855,613	147,684,111	143,124,035
IV	2,483,493	2,554,112	2,569,731	2,279,836
Total	£680,559,175	678,440,173	624,740,517	593,140,723

	1907	1906	1905	1904
I	£247,386,504	238,229,466	232,373,723	231,790,837
II	241,594,687	211,509,201	188,071,557	182,210,518
III	154,564,748	155,806,248	142,577,665	135,150,692
IV	2,358,237	2,442,978	2,256,457	2,210,077
Total	£645,904,176	607,987,893	565,279,402	551,362,124

	1903
I	232,505,757
II	173,558,796
III	134,659,090
IV ;	2,182,682
Total	£542,906,325

Exports (Year ending December 31st)

	1914	1913	1912	1911
I	£ 26,936,176	32,607,760	32,689,983	29,031,728
II	56,711,368	69,896,428	59,427,553	53,729,567
III	338,151,677	411,572,145	385,218,995	362,387,504
IV	8,431,504	11,385,083	10,097,471	9,133,661
Total	430,230,725	525,461,416	487,434,002	454,282,460
V*	95,489,586	109,655,718	111,837,905	102,720,799
Grand Total	525,720,311	635,117,134	599,271,907	557,003,259

*Re-exports of Foreign and Colonial Merchandise.

	1910	1909	1908	1907
I	£ 26,113,383	23,627,458	21,943,251	22,748,847
II	53,337,351	50,782,779	52,386,611	55,004,750
III	343,023,286	297,303,812	297,061,087	342,173,851
IV	8,115,791	6,665,395	5,828,630	6,277,148
Total	430,589,811	378,379,444	377,219,579	426,204,596
V	103,776,104	91,365,465	79,665,569	91,972,141
Grand Total	£534,365,915	469,744,909	456,885,148	518,176,737

	1906	1905	1904	1903
I	£ 21,128,825	19,472,952	16,926,051	16,362,490
II	43,271,249	35,558,829	35,670,495	35,380,239
III	305,608,711	269,959,757	243,942,434	234,891,447
IV	5,664,128	5,031,929	4,278,917	4,256,105
Total	375,672,913	330,023,467	300,817,897	290,890,281
V	85,163,386	77,798,521	70,321,918	69,557,035
Grand Total	£460,836,299	407,821,988	371,139,815	360,447,316

The value of the imports represents the cost, insurance and freight, or when goods are consigned for sale the latest sale value of such goods.

The value of the exports represents the cost and the charge of delivering the goods on board the ship, and is known as the "free on board" value.

From these figures it is strikingly evident that a remarkable growth has been taking place. In 1903 total imports were £542,906,325 while in 1913 they reached £769,033,959 - an increase in ten years of 41.7%. Total exports were in 1913 £525,461,416 - an increase of 80.7%. Re-exports of foreign and colonial merchandise compare £69,557,035 with £109,655,718 - an increase of 57.6%. Finally, total trade was £903,353,641 in 1903 as against £1,404,151,093 in 1913, revealing a gratifying increase of 55.5%. The figures for the consecutive years indicate that the development has in no sense been spasmodic, but

rather a steady, continuous progress built upon the efforts of industry. There was a wavering in 1908-9 but 1910 showed ample recovery. The year 1913 eclipsed all previous foreign trade records. The greater part of this return was due not to a rise in prices but to actual increase in the volume of trade. The latter half of this year however witnessed a slackening in the rate of increase. The tendency became more marked in 1914 as a comparison of the figures for the first six months of 1911, 1912, 1913 and 1914 brings out.

Imports first six months (£)*

	1914	1913	1912	1911
I	£135,752,101	136,056,020	128,600,166	119,936,196
II	139,382,698	143,735,107	135,072,330	130,078,691
III	99,042,490	97,416,246	88,913,368	82,852,891
IV	1,706,001	1,552,840	1,409,358	1,255,198
Total	£375,883,290	378,760,213	353,995,222	334,122,976

Exports first six months (£)

	1914	1913	1912	1911
I	£ 14,410,442	13,493,211	14,369,289	12,106,862
II	34,157,286	33,935,581	25,372,423	26,330,780
III	201,643,772	204,896,842	180,879,044	181,157,741
IV	5,246,111	4,730,174	4,692,289	4,072,914
V	59,276,416	59,055,577	57,833,721	54,887,444
Total	£ 314,734,027	316,111,385	283,146,766	278,555,741

In order not to be misled in this regard, falling prices must be taken into consideration. The volume of trade was not diminished as much as values would indicate. Index numbers for the first half of 1913 and of 1914 in the following table show a fall in prices in 1914, the only exception being raw textiles:

*The Economist (London) tables July of the respective years.

Half-yearly Index Numbers (Average)*

	First half 1913	1914	Rise (+) or Fall (-) Amount	Per cent
Vegetable food	71.5	66.8	- 4.7	- 6.6
Animal food	100.3	98.2	- 2.1	- 2.1
Sugar, coffee, tea	54.1	51.9	- 2.2	- 4.1
Total food	78.4	75.2	- 3.2	- 4.1
Minerals	113.7	101.4	-12.3	-10.8
Textiles	82.0	83.0	+ 1.0	+ 1.2
Sundry materials	83.7	83.3	- 0.4	- 0.5
Total materials	91.2	88.1	- 3.1	- 3.4
Grand Total	85.9	82.7	- 3.2	- 3.7

For the trend of prices 1911 to 1916 inclusive note the following:-

1911	1912	1913	1914	1915	1916
80	85	85	86	108	137

The higher average for the year 1914 was due to the rise in the latter half of the year. The course run was (1914) June 81.2, July 82.4, August 87.9, September 89.3, October 89.8, November 88.8, December 91.6,(1915) January 96.4, February 100.9. The rise continued at this more rapid rate. The average of the prices of forty-five commodities 1867-1877 is taken as 100 in making this comparison.#

The first seven months of 1914 showed a shrinkage in foreign trade compared with the same period in 1913 of £4,357,000, but the last five months to the amount of £90,657,000 or 41%. The twelve months decrease was £95,014,000 or 18%. But for the large investments in colonial and foreign countries the reaction in foreign trade in the months just preceding the War would have been greater. The annual income of Great Britain

*Statist January 11, 1915, page 75.
#Statist Vol. 89, page 63 & Vol. 83, page 60.

exceeds £2,000 million. It is therefore evident that the imports of £770 million worth of goods - paid for by exports of goods of over half a billion pounds sterling plus shipping and other services done for foreigners - plays a very large part in the material prosperity of the country. It was computed that at the close of 1913 Great Britain had no less than £4,000 million capital invested abroad from which an income was derived of £200 million while £150 million was due shippers, bankers, brokers and others. It would therefore have taken £300 million exports to have offset the £659,000,000 net imports. The total exports were £525 million. Hence some £200 million securities were purchased.

(b) British Banking

It is to be expected that the expansion of banking in an old country will be slower than in a new one where population grows rapidly thru immigration. Yet countries which progress so fast are liable to great oscillations in fortune, expansion, and panic. Income, trade, and production may increase 100% with a setback of perhaps 20% to 25%. The advance of Great Britain has been in comparison slow, but solid and substantial, the reactions after periods of expansion being small and unimportant. The normal rate of growth has been about 25% per decade with occasional reactions amounting to no more than 2½%, or, in relation to population about 5%, * No country enjoys a steadier rate of progress and suffers less from readjustment and reaction. The course is usually somewhat as follows: Vigor-

*Statist July 25th, 1914, page 169.

ous foreign trade, economy at home and consequent investment; next an interim of reaction; then economy abroad and home expansion through spending. The first stage reached its height in 1913 and the second had set in, though seemingly it was not to be severe.* Certain countries had expended as much as they would be justified in borrowing for some time to come but other countries had demands still unmet. The British Government had, however, decided upon measures to temper the situation. These steps ushered in the third stage. As an illustration, the Government was to provide capital for the erection of 100,000 cottages in country districts. Further when the rate of interest dropped, hundreds of thousands of small houses would be built in the towns and other improvements would be made. This sort of situation would be favorable for the electrification of railways.

When international trade slackens gold flows in, capital accumulates, and there is a demand for securities. The position of London as the clearing house of the world for bills, drafts and securities accentuates this tendency. The world banking position,# the value of banking assets and growth of deposits, the ease with which the multiplicity of business interests were served were all favorable signs. The only weak spot was the extent of the gold reserve held by bankers, ample enough for normal times but not a very substantial margin for abnormal times as in war. There was, however, a considerable amount of gold (sovereigns and half-sovereigns) in the hands of the people, used in daily exchange.

*British Trade Journal, January 1st, 1914, pages 2-4.
#The Great War, Allen, Whitehead, Chadwick, Vol.2, pages 396-397

In the nineties there was a period, lasting several years, of extremely cheap money. In order to employ the funds left with them at a reasonable rate of interest, bankers increased their investments; 23% of their resources were placed in securities. These were bought at a low figure but since had been written down farther. The Boer War brought with it large issues of Consols and an extension of the list of trustee investment stocks and securities held by bankers. This paper suffered a great decline in value. In 1898 the average price of gilt-edged securities in which bankers invested was about 116. The following table will show the movement. The five securities averaged are - (1) 2½% Consols (2) India 3½% Stock (3) London County Council 2½% (4) London & N.W. Railway 4% Preferred.

Average of the Five Securities.*

Year	Price%	Yield (£	s.	d.)
1898	116	2	14	3
1899	107½	2	18	5
1900	106	2	19	3
1901	104¼	3	0	2
1902	103	3	0	9
1903	98 3/8	3	2	9
1904	98½	3	2	6
1905	99	3	2	3
1906	95¾	3	4	6
1907	92 3/8	3	6	10
1908	92½	3	6	6
1909	90 5/8	3	8	0
1910	87¾	3	10	0
1911	86 5/16	3	11	5
1912	83½	3	13	10
1913	78½	3	18	6
1914 (June 30th)	82	3	15	2

Thus at the end of 1913 the fall had registered 32%, that is, over £80,000,000. Considering low writing and short dates the banks had to make provision for depreciation of something like

*Statist, July 25th, 1914, Vol. 81, page 172.

£40,000,000. It is a tribute to the stability of British banking that these losses were met out of annual profits without a reduction in dividends except in one or two instances where an ultra conservative policy was pursued. In many cases banking profits actually increased after allowing for depreciation. Dividends as a rule were higher in 1913 than in 1898. The only banks to suffer marked inconvenience were those which were really trust companies and had placed the bulk of their money in investment securities instead of employing it for normal banking purposes - in the discount of bills and in loans to customers. The Birkbeck Bank alone was forced to close. The average rate of interest since 1899 is some 33% more than that of 1891-1898. The figures are:

Average rate discount of bills % Bank of England	£.	s.	d.	Average Loan rate % * £.	s.	d.
1880-1890	3	8	3	2	13	1
1890-1899	2	13	1	1	14	7
1899-1914	3	14	5	3	5	3

As before stated "British banking is less liable to losses arising from sudden and dramatic changes in economic conditions than the banks of any other country." It is nevertheless essential that the profits be large enough to take care of any loss that may be incurred and to pay dividends sufficiently high to maintain the confidence of the shareholders and of the public. One reason that banking dividends have not been higher is that bankers have followed the policy of opening new branches in all parts of the country. "These new branches do not yield but rather drain profits for a few years." Since 1898, 3000 new

*Statist July 25th, 1914, page 172, Vol. 81.

bank offices have been opened in the United Kingdom on balance and the total number has been increased from under 6000 to nearly 9000. A fact worth noting is that banks have not increased their capital. At the end of 1913 the paid up capital of the banks of the United Kingdom was about the same as in 1895, though deposits had increased from £735 million to £1142 million. Apart from a moderate increase in reserve fund shareholders have enjoyed 60% more deposits without finding more capital. Including the surplus the proportion of capital to total liabilities at the end of 1913 was 9.8% in comparison with 13.2% at the end of 1895 and 16.5 at the end of 1885. Deposits in 1880 were £356 million. Hence in one generation there was an increase of 150%.

To sum up, the outlook was a favorable one. The expansion of banking in the past, the solidity and stability of the banks, and the efforts which were in evidence to increase the gold reserves, together with the likelihood of great improvement in the value of and income from bankers' investments and the consequent restoration of the proportion of paid-up capital and reserve funds to deposits to a higher figure as adequate security for further growth - all gave indication of a great future built on unquestionable present strength.

(c) Debt, Taxation, Standard of Living.

In 1816 after the Napoleonic Wars Great Britain had a population of about 20 million and an accumulated wealth of £2500 million. Her income did not exceed £300 million. The debt incurred was some £895 million with an annual interest

charge of £33 million. The debt charge was 11% of the nation's income and the debt three times the annual income and one third of the total wealth. The total annual expenditure of 1816 was £65 million (25% of the entire income). The amount was raised with some sacrifice but all in all without great hardship or difficulty. At the outbreak of the European War Great Britain's population numbered about 47 million in possession of a wealth of £17,000 million and an annual income of £2400 million. The debt had been reduced to about £706 million* and the interest charge to £17,341,000 (less than three-fourths of 1% of the annual income). The debt was merely due from the nation as a whole to individuals within the nation and the interest paid came back to the Government in taxation either directly or indirectly, a more pleasing situation than the owing and paying to a foreign power. The total Government expenditure in 1913 (exclusive of reproductive services - such as Post Office and telephone which yield substantial profit,) was only£165 million (equal to less than 7% of the income as against the 25% in 1816). The expenditure in 1913-1914 included large sums which the Government was paying for education, sickness, and old age which until a few years ago were paid entirely by individuals. Expenditures prior to the War (1913-1914) were:-

*The debt is sometimes quoted as £651 million but this figure is "exclusive of capital liabilities in respect of works."

Great Britain's Expenditures in 1913-14 (Prior to the War) *

Interest	£ 16,894,000
Road Improvement Fund	1,395,000
Payments to Local Taxation Account	9,734,000
Other Consolidated Fund Services	1,694,000
Army	28,364,000
Navy	48,833,000
Civil Services:	
Public Education	19,450,000
Health Insurance, etc.	7,066,000
Old-Age Pensions -	12,600,000
Other Civil Services	14,785,000
Customs and Inland Revenue	4,483,000
Total	165,280,000
Sinking Fund	7,606,000
Post Office Services	24,607,000
Grand Total	£ 197,493,000

In reality the Sinking Fund was £10 million as amounts were applied on the Army, Navy, and Post Office votes.

Taxation in proportion to income showed increasing lightness of burden.

Lightness of Tax in Proportion to Income #

Year	Population	National Income per annum	Taxation per annum	Annual Excess of Income over Tax
1815-16	20,000,000	£ 300,000,000	£ 62,000,000	£ 238,000,000
1859-60	29,000,000	700,000,000	66,000,000	634,000,000
1913-14	46,000,000	2400,000,000	163,000,000	2237,000,000

The margin of income in proportion to population and in excess of taxation indicates further the improved position of the people.

Year	Income per Head £	Tax per Head £	Income in Excess of Taxation per Head of Population £ #
1815-16	15	3.1	11.9
1859-60	24.1	2.2	21.9
1913-14	52.1	3.5	48.6

*Statist September 11, 1915, Vol. 85, page 413.
#Statist September 11, 1915, Vol. 85, page 414.

No other country except the United States had so small a burden in proportion to national income. Practically all the necessaries of life and most of the comforts were free from tax. The revenue came chiefly from luxuries. Note the following statements:

British Revenue from Customs 1913-14 *

Spirits	£ 4,435,000	
Wine	1,152,000	
Beer	32,000	
Total Alcohol		5,619,000
Motor Spirit		824,000
Tobacco		18,263,000
Tea, Coffee, Cocoa, Chicory		7,061,000
Sugar		3,272,000
Dried and Preserved Fruits		514,000
Miscellaneous		16,000
Total Custom Receipts		£ 35,569,000

British Revenue from Excise 1913-14 *

Exciseable Liquors:-		
Beer Duty	£ 13,623,000	
Spirit Duty	19,540,000	
Total	33,163,000	
Spirit, Wine, and Beer Licences	4,440,000	
Total Alcohol and Alcohol Licences		37,603,000
Carriage, Motor Car, etc. Licences		730,000
Patent Medicine Labels		360,000
Railway Duty		288,000
Miscellaneous		677,000
Total Excise Receipts		£39,658,000

The total customs and excises were £75,000,000 of which £43 million were upon alcohol, £18 million on tobacco and £11 million on tea, sugar, etc., that is, one half of 1% of the nation's income. The "House Duty" in 1913-14 yielded £1,930,000. This duty is a tax upon rentals of £20 or over per annum and

*Statist September 11, 1915, Vol. 85, page 414.

includes about two million out of nine million houses. Death duties (practically the only tax on capital) brought in £27,359,000. The stamp tax (a tax of great variety and light incidents) returned £9,983,000. The income tax returned £4, 729,000. The rate was 1s 2d nominally but in reality generally was about 11d and applied only to incomes of £160 a year and over. On earned incomes of less than £2000 the tax was 9d but virtually was only 4.44d on account of substantial abatements made on incomes of from £160 to £700. The super-tax (6d on incomes over £5000) brought in £3,120,000. The land tax amounted to only £700,000 and the land value duty to £715,000. A summary shows the proportions at a glance:

Source of Great Britain's Revenue 1913-14 *

Customs	£ 35,450,000	
Excise	39,590,000	
Estate Duties, etc.	27,359,000	
Stamps	9,966,000	
Land Tax	700,000	
House Duty	2,000,000	
Income Tax (incl. Super-Tax)	47,249,000	
Land Value Duties	715,000	
Total Receipts from Taxes		£ 163,029,000
Postal Service	£ 21,190,000	
Telegraph Service	3,080,000	
Telephone Service	6,530,000	
Crown Lands	530,000	
Receipts from Suez Canal Shares and Sundry Loans	1,580,000	
Miscellaneous	2,304,000	
Total Receipts from Non-Tax Revenue		35,214,000
Grand Total		£198,243,000

The tax (exclusive of alcohol and tobacco) on the working classes was 10s in £100 and on the wealthier with average incomes of £800 or over per person 9% of the income.

*Statist September 11, 1915, Vol. 85, page 415.

If alcohol and tobacco are included the percentages are 4% of the incomes of the working classes and 10% of the wealthier. The poor received back two-thirds of the amount paid in by way of health insurance, old age pensions, etc. The moral, physical, and mental condition of the people was being improved through attention to health and education.

This review of the situation reveals that the United Kingdom at the outbreak of the European War had just established a world's record for foreign trade, had doubled her income in thirty years, possessed a financial system of unquestioned strength, had reduced debt and taxation to a remarkably low level, was bettering the condition of her people*, and in spite of a slight depression setting in was enjoying unprecedented prosperity. It would thus appear that all conditions were favorable: first, to the maintenance of British credit and of the credit system of the world; second, to the maintenance of British trade at a high level; and third, to the raising of all the money needed for war even though that sum might be very great.

*Economist (London) July 4, 1914, pages 14-15.

Chapter Two

The Early Months of the War

(a) The Moratorium

It was only natural that the effects of the great struggle should at the very beginning be felt by the Exchange and the banks. The immediate shock of war is always tremendous in financial circles. While prosperity reigned supreme and the fruits of peace were being enjoyed Great Britain made no plans to put the country upon a sound war basis. It is one thing for the wheels of industry and finance to be running smoothly and at a rapid rate and quite another for the mechanism to be adjusted to receive an additional and unexpected burden. The United Kingdom was practically as unprepared to meet the financial emergency as to oppose the trained armies of central Europe with an adequate number of equipped and drilled troops.* It is scarcely too strong to say that the "bankers were taken completely by surprise." #

The difficulties in London were not brought about by any widespread loss of confidence on the part of bank depositors, nor were they primarily due to fear, present in previous panics, that accommodation would not be obtainable at a price at the Bank of England. X The trouble began with a breakdown in the system of foreign exchange and bourse dealings thru an

*Finances and Costs of the Present European War by Army War College, Washington, D.C. November 1915, Page 5.
#Statist, September 5th, 1914, page 531
XEconomist, October 24th, 1914, page 686.

unprecedented flood of liquidation in foreign financial centres. Austria declared war on Servia Tuesday July 28th, 1914, and the Continent immediately considered a collision between the powers inevitable. Every stock exchange was swamped with selling orders. On Thursday, July 30th only London, New York, and the Paris Parquet remained open. That day brought a rush "to sell anything and everything not alone by foreign but also by home sellers." With the bonafide liquidation of open accounts, the realization of shares by nervous holders, and a large amount of "bear" selling, the tide was all one way. The world's financial system was thrown out of gear. Thursday, July 30th, recorded the failure of the highly respected firm of Messrs. Derenburg & Company - a firm with large foreign connections. The situation was brought home. In response to representations from a number of firms the Exchange did not open July 31st.

Banks remained open Friday and also Saturday but made the mistake of meeting demands for withdrawals by paying only 10% gold and 90% Bank of England notes. Those requiring gold were told to cash the notes at the Bank of England. Alarm arose and there was a run on the Bank; it paid gold but owing to the heavy demand by bill brokers who had to repay their bank loans, raised the rate. The Bank rate had stood at 3% from January 29th, 1914 to July 30th when it moved up to 4%. An advance was made to 8% on July 31st and on August 1st to 10% - "the figure which precedent has fixed as the distress signal which calls for remedial measures,* and the highest level reached since 1866.# Monday, August 3rd was a regular bank

*Economist, October 24th, 1914, page 686.
#The Great War by Allen, Whitehead & Chadwick, Vol.2, page 399.

holiday. Parliament, however, extended this holiday to August 6th inclusive and further decided upon a month's moratorium with respect to bills of exchange. The extension of the holiday applied only to banks.* The general moratorium did not include

(1) debts of the Government
(2) liabilities not in excess of 5,
(3) payment in respect of rent, taxes, or maritime freight
(4) debt of firms, etc. resident outside the British Isles
(5) bank notes issued
(6) dividends or interest payable on stocks, funds, or securities (other than real or heritable securities) in which trustees are authorized to invest.

Interest had to be paid. The moratorium affected only the date on which it was necessary to pay the debts and no other contractual obligations.# The moratorium stopped all speculative business on the stock exchange, but cash dealings could continue.

Upon the reopening of the banks the Treasury under the Currency and Bank Notes Act of 1914 issued £1 notes (followed August 13th by 10s notes) convertable into gold at the Bank of England and legal tender.to any amount. X Post Office money orders were also made legal tender. £225 million of the emergency £1 and 10s notes were authorized. Banks were empowered to borrow the Currency Notes from the Government up to 20% of their liabilities on deposits and current account. The Bank of England on August 6th reduced its rate to 6% and

*House of Commons Parliamentary Papers, Vol.65,Col.1808.
#House of Commons Parliamentary Papers,Vol.65,Col.2243.
XA Memorandum of the Finances of the Great War,Moreton Frewen,p.8

on August 8th to 5%. During the holidays the people had been told that the hoarding of gold would be very unpatriotic. Steps were taken to hold gold in Canada, Australia and South Africa to the account of the Bank of England.

Traders had to be provided with banking facilities and so on August 13th the Government guaranteed the Bank of England under certain conditions against any loss it might incur from discounting bills of exchange, either home or foreign, bank or trade, accepted prior to August 4th, 1914.* The Bank of England announcement and the subsequent circular issued by the Government August 19th provided for a relief of both sides of the money market - borrowing and accepting. The Bank of England took in the bills and their holders repaid their loans at the joint-stock banks. These in turn increased their balances at the Bank of England. Money lending on stocks was at a standstill and new bills were few. Hence these balances were partly used in granting over drafts to manufacturers to whom war had brought heavy orders. On September 4th under the Government guarantee the Bank of England undertook to lend to accepting houses to enable them to meet their liabilities. The loans were repayable one year after the war and were charged at 2% above Bank rate. There were upwards of £350 million of uncollectable debts due from enemy countries in the form of international bills at the time of the Government guarantee. By November 1915 only £33 million remained to be held in abeyance till the end of the war. The whole or practically all of the £33 million due bids very fair to be collected when peace is

*See Statist August 15,1914, page 427 & ff. for details.

restored.* In a single day the Bank of England discounted bills to the value of £9 million but the demand soon fell to £5 million, £½ million, and so on as the supply of working capital increased and the necessity for discounting grew less urgent. The assistance of the Bank of England in past crises had been most noteworthy, and it again proved itself to be more "than ever before the pivot on which British finance revolves." #

Out of eight thousand replies to the Chancellor of the Exchequer's questionairre addressed to the leading banks, traders, accepting houses, etc., 4500 favored an end and 3500 an extension of the moratorium. X The decision however was to extend the time till October 4th and at a later conference for still another month. This extension applied to all bills of exchange except bills on demand and checks and did not affect rents and rental traders debts.

Matters regarding the Stock Exchange took somewhat longer for adjustment. The Exchange did not open until January 4th, 1915.

(b) The Finance Act of July, 1914.

On July 31st the Finance Act of 1914 was passed. This act was the carrying out of budget plans made months before and while it was in no sense a war measure the debate and the character of the provisions of the bill are significant in the light of future development. Increases in expenditure over

*Statist, November 6, 1915, page 459.
#House of Commons Parliamentary Papers, Vol.66, columns 68-69.
XBritish War Finance, 1914-1915 W.R.Lawson, page 13.

1913 of £4,218,000 were expected and the deficit already of £5,330,000 was awaiting disposal.* This £10 million total had to be met by new taxation or from raiding the Sinking Fund. Six years before the amount called for was only two-thirds of the present expenditure. One million pounds sterling was to "be employed in oiling the wheels of national insurance", £2,430,000 to be paid in additional grants to local authorities for roads, police, public health, etc., and £586,000 for educational purposes.

A tax of 5d per pound was placed on tea and the income tax increased. This latter measure applied only to "unearned" incomes. Subject to the usual abatements, 9d per pound was charged on incomes up to £1000; from £1000 to £1500 there was an addition of three half-pence; from £1500 to £2000 am increase from 9d to 1s; £2000 to £2500 to 1s 2d; above £2500 - 1s 3d.# A super-tax of 6d in the pound was proposed on incomes exceeding £5000 with an abatement of £3000 but later on Lloyd George substituted a super-tax starting at 5d in the pound on incomes of £3000 of which £2500 was exempt and rising rapidly to a maximum of nearly 1s 4d. Thus the total income tax on £100,000 a year would be increased from 1s 7d to 2s 7d per pound. The Death Duty rate was left the same up to estates of £60,000 from which a gradation of 1% additions was imposed to a maximum of 20% (instead of 15%) on estates of one million pounds and upwards. Five pence per pound was laid on tea.

*Economist (London) May 9th, 1914, pp. 1066-1067.
#Income Tax Practice, W.E. Snelling, Appendix pp.420A-420M.

In the 1909 Budget* Lloyd George introduced taxes to provide a gradually increasing amount for social betterment - in the words of the Chancellor's momentous speech "to wage implacable warfare against poverty and squalidness".# The yield from these taxes in 1913-1914 was as follows:ø

Spirits	£ 2,500,000
Tobacco	2,900,000
Motor Spirits	840,000
Liquor Licences	2,360,000
Motor Car Licences	640,000
Estate Duties	7,130,000
Stamp Duties	1,440,000
Income Tax	5,440,000
Super-Tax	3,320,000
Land Value Duties	715,000
Total	£27,285,000

These changes it was supposed would furnish ample funds for social reform for years to come; so they would had not the Army and Navy eaten them up. The allocation planned in the 1909 Budget was:

(1) Navy
(2) Old age pensions, including paupers pensions
(3) Improvement of main roads
(4) Development Grant (notably for agricultural purposes)
(5) Setting up and financing of Labor Exchanges and National Insurance
(6) Relief of local taxation.

Up to 1914 the revenue was sufficient for all of these purposes, Mr. David Lloyd George stated, except the last. Foreign shipping programs forced Great Britain to follow, and reduction in taxation was not possible. As a matter of fact the tax per head

*British Budgets, 1887-1913, Bernard Mallet, pp.298-313;396-399.
#It may be that the War itself will cause greater changes for the better in the life of the mass of people and in the attitude of the Government toward them than the Chancellor had in mind in the 1909 Budget.
øHouse of Commons Parliamentary Papers, Vol.64, Col. 836.

in proportion to the national debt was diminishing. In 1887 the amount was £20.11; in 1899 (before the Boer War) £15.52; in 1914 £15.37. It was supposed that the "abnormal ship-building period" would be passed by 1916.

In eighteen years the budget increased from £100 million to over £200 million. The question was raised in the House of Commons as to where additional revenue would come from in case of a European war. Mr. Hayes Fisher was of the opinion that if the income tax was now raised it could not be increased in time of war when the need of funds was imperative. Andrew Bonar Law said - "It is from the Income Tax that every one used to get the necessary money in time of war. Where would you get it now?" Further opinion was that if the income and death duties were raised much higher they would break and result in an absolute decrease. On every hand there was a clamour for reduction in Army and Navy expenditure. For the second* time in the history of P arliament closure was adopted limiting debate on the Finance Bill. Conflicting argument and criticism regarding his task was such that Lloyd George ironically said that he was expected to arrange the taxation in such a way that no one should bear it yet everyone should benefit from it.

(c) The Budget of November 1914.

On August 6th Mr. Asquith moved a vote of credit of £100 million as a war measure.# This was the beginning of a course of expenditure the magnitude of which only the most

*On April 18, 1910 the Prime Minister moved the guillotine resolution and closure was adopted on the Finance Bill which had already been discussed for almost a year.
#House of Commons Parliamentary Papers, Vol.65, Col.2073.

imaginative foresaw. The second vote came the middle of November and called for £225 million; the third followed on February 25th for £287 million. As a ready means of obtaining funds the Chancellor decided to issue Treasury Bills* (a plan originated by Mr. Bagehot). There were £10,100,000 outstanding due to mature in November and December 1914 and January 1915. The first emission for war purposes was made August 19th for £15,000,000. At intervals of about two weeks several successive installments followed. Most of these were for £15,000,000, and were to run for six months. The issue of September 16th was divided - £7,500,000 for six months and the same amount for one year. The following table shows the facts regarding the nature and popularity of each issue to the end of 1914:

British Treasury Bills #ø

Date of Maturity 1915	Amount	Duration Months	Amount Tendered
Feb. 22	£15,000,000	6	£42,115,000
Feb. 27	15,000,000	6	40,193,000
Mar. 19	7,500,000	6	24,561,000
Apr. 10	15,000,000	6	30,493,000
Apr. 24	15,000,000	6	43,162,000
May 7	15,000,000	6	26,633,000
Sept.18	7,500,000	12	22,487,000
	6,350,000 Placed Privately		

Date of Issue 1914	Average Price Received % £	s	d	Average Rate of Discount % £	s	d
Aug. 19	98	3	5.29	3	13	1.42
Aug. 26	98	2	3.96	3	15	6.09
Sept. 16	98	10	8.73	2	18	6.55
Oct. 7	98	5	4.38	3	9	3.24
Oct. 21	98	2	6.59	3	14	10.83
Nov. 4	98	3	3.79	3	13	6.83
Sept. 16	96	11	8.42	3	8	3.58

*Information Vol. 3, No. 4, p. 366.
#Statist, February 20, 1915, Vol. 83, p. 275.
øTimes (London) November 30, 1914.

To Mr. David Lloyd George fell the task of finding the money. His budget of November 17th was accordingly anxiously received. Very little additional taxation was imposed to the disappointment of the press and the relief of certain wealthy interests. The duty on tea was raised from 5d to 8d the pound - the point it reached during the Boer War. During the Crimean War the high mark was 1s 9d.* After an elaborate investigation Mr. McKenna concluded that the English drink beer mostly in half pints and that a tax of a half-penny per half-pint would be best and at the same time less easily increased in the shifting of the burden by the seller. The Chancellor of the Exchequer accepted this suggestion and increased the tax 17s 3d,ø ie. from 7s 9d to 25s. # The hours of sale were curtailed but this was offset by a decrease in the proportion of proof spirit. The income tax was doubled, the maximum for unearned incomes being 2s 6d. Small incomes were exempt as before. The maximum super-tax was made 2s 6d. Both of these taxes were on the graduated plan. The poor were reached thru the beer tax, the richer thru the income and super-taxes, and both thru the tea tax.

Lloyd George in the course of his speech laid down the principles which should govern the war finance of Great Britain. He said "It is easier to raise taxes in a period of war and lower them in a period of peace than to raise even lower taxes in a period of peace. War is the time for sacrifice in nations. They are in the spirit of sacrifice and that makes

*Economist (London) November 21, 1914, page 907.
#W.R. Lawson, British War Finance, 1914-15, page 311.
ø This amount refers to the tax per barrel.

a difference.

I want to impress upon the Committee with all the earnestness at my command that it is desirable that the nation, during this period of inflation, should raise as much money out of taxation as it can be induced to contribute. Every twenty million raised annually by taxation during this period means four or five million taken off permanent burdens thereafter imposed on the country"*

If the weight of these words is rightly judged the program of taxation offered was wholly inadequate. It necessitated the raising of some £350,000,000 by borrowing.

The Treasury Bills, maturing in six months, called for continuous retirement and so a more permanent form was desirable. Accordingly a loan # was offered November 16th for £350 million. The bonds were issued at 95% bearing interest at 3½% and maturing 1925-1928. They were thus virtually on a 4% basis. Payments were spread over three months. The Bank of England was to advance amounts equal to the issue price of the stock or bonds deposited without margin at rate of interest 1% below the current Bank rate. ø§ This accommodation was to be available for three years.§ This provision aided in keeping the price up. It was desired to make the loan as big a success as possible for effect. Until this time the cost of financing the war had been borne chiefly by British bankers who purchased

*House of Commons, Vol. 68,Cols. 354-355.
#House of Commons, Vol. 68,Col. 374.
øStatist, November 21,1914,page 458.
§House of Commons, Vol. 66,Col. 376.
§Statist, June 26,1915,page 704.

the various issues of Treasury Bills. * Even now small investors played no part ; £100 was the lowest subscription. The number of applicants was, however, gratifying, reaching 100,000.#

On March 5th, 1915, 3% five year Exchequer Bonds made their appearance. About £50 million were issued. This device was originated by Mr. Gladstone during the Crimean War (1854) and was again employed during the Boer War (1900-1901).

Toward the close of 1914 the country began to recover from the terrific shock felt at the beginning of the conflict, and a campaign for "business as usual" was ushered in. Business men, politicians, and the press gave the idea unanimous sanction. The exhortation bore fruit. High wages led to extravagant consumption of luxuries. The lower classes were especially lavish and wasteful. They even exceeded the liberal advice that "Everyone should act in a normal manner and should confidently expect that his income will be maintained, and that he will be able to go on doing those things and spending just as much money as in recent years." ø

The early months of 1915 fulfilled the third of the four stages Professor Moulton describes. They are in order: x

(1) Retrenchment with the immediate shock of war.
(2) Business about as usual.
(3) Extravagant expenditures (because large purchasing power in the hands of the Government means increased employment and substantial increase in wages for the laboring classes).

*Commercial & Financial Chronicle, Vol.99, pp.1483-84.
#Statist November 28,1914, Vol. 82, p. 479.
øStatist, August 8, 1914, Vol. 81, p. 394.
xIndustrial Conscription, H.G. Moulton, p.54, (in Financial Mobilization for War).

(4) Inflated prices and enforced retrenchment in the purchase of luxuries, and eventually even of many necessities.

Great Britain learned the fallacy of the "normal living" doctrine but not without the cost of the lessons of experience. The re-action came slowly and with some reluctance. The taxation measures for the year 1915-1916 will be sufficient proof of this statement.

Chapter Three

The Fiscal Year 1915-1916

(a) The Gold Situation

In addressing the House of Commons the Prime Minister (Mr. Asquith) said -

"I would venture, if my words may carry their message beyond these walls, to my fellow-countrymen outside, to say to them - to householders, to employers, indeed to everybody - that in a small but not unimportant way one of the best services they can render to the country at this moment is to see that all what I may call 'till' money - the smaller change of our social and industrial life - is paid not in gold but in notes and in paper." In other words the Currency £1 and 10s notes were to take the place of gold which would then be available for the use of the Government.* The fact that Scotland and Ireland had been using £1 notes for several years was of material assistance in popularizing the new notes. As the people would take them, the amount in circulation was expanded. To the credit of the British people there was little hoarding. By May 12th, 1915, notes to the amount of £43,519,000 were in use. It was thought advisable to establish a substantial gold fund for redemption. On May 12th this amount was £28,500,000; in addition a cash balance of £6,257,000 to the credit of the Treasury on deposit with the Bank of England and £8,623,000 of Government securities were

*British War Finance 1914-15, Lawson, pp. 96-98.

held.* In case of urgent necessity the redemption fund could be used for other purposes as the country had to have a considerable amount of currency of small denominations and would have had to pass currency notes from hand to hand in daily transactions. As an indication of the status of the note issue in the middle of May, the total amount in circulation, including the Bank of England notes, currency notes, and Scottish and Irish bank-notes, equaled £101 million, against which the banks and Treasury held £108 million gold, (that is £7 million excess) plus a large amount in the vaults of joint-stock banks. The deposits of joint-stock banks since the beginning of the War had increased from £1100 million to over £1200 million, while deposits, Government and private, of the Bank of England had risen from £46 million to £219 million. Making due allowance for credit operations, the real money was a much greater sum than had ever been accumulated in the British banks in a similar period.# The success was due to a combination of (1) confidence of the people (2) prompt action of the Government and (3) co-operation of the banks. It should also be borne in mind that British possessions yield approximately 66% of the world's gold production.ø

Had there not been counteracting forces at work, the outlook would have indeed been optimistic. Great Britain was, however, making very large purchases of war materials in foreign markets, especially in the United States. At the same time

*Statist, May 15, 1915, page 307.
#Statist, May 15, 1915, pp. 303-307
øThe Finances of Great Britain, E.F. Davies, page 51.

exports were unable to balance the scales. With increasing numbers of laborers drawn from industry curtailing the manufacture of exports with shipping difficulties growing greater, and with the consumption of imports of comforts and luxuries at an enormous figure, gold began to move in large quantities to New York. During the third week of August the American sight exchange fell to 4.64. This gave an added impetus to the outpouring of gold. In normal times an adverse exchange would be met by an advance in the Bank of England Rate. This would induce a number of persons all over the world to reduce their obligations to London and foreign money would come in. The exchange would recover, the export of gold stop, and after a short time, fresh supplies of gold come in. Now, however, this remedy was not possible. Great Britain was no longer exporting large quantities of capital to other lands for investment. On September first the American exchange tobogganed to 4.50, (some papers claim 4.48). It was believed that speculative operations contributed their part to the fall.* This was the lowest point touched since the present system of international exchange was devised in 1873. On the different basis of quotations formerly in use, sterling fell in 1857 to the equivalent of about 3.53 (i.e., a discount of over 27%). That was a year of commercial and financial crisis both in America and Great Britain. The following table shows the extremes of the six years 1910-1915.#

*Economist, September 4, 1915, pp. 355-356.
#Statist, January 29, 1916, pages i-viii.

Year	High	Low
	$	$
1910	4.884	4.855
1911	4.876	4.855
1912	4.88	4.85
1913	4.886	4.854
1914	6.00 *	4.855
1915	4.8575	4.50

(The pound sterling is worth $4.8665 gold.)

Steps were taken immediately to bolster up the rate of foreign exchange. Nearly £2 million gold was shipped to the United States, supplementing the sale of securities, in an effort to turn the tide. As a temporary measure this means was of course effective. Two days later the recovery was to the point of 4.71 - a change of from 7.6% discount to 3.2%. A committee started for America September first to negotiate a loan to aid in steadying the Exchange. So fluctuating and unstable was the rate at that time that when the committee left London it stood at 4.50, when they arrived in America at 4.72½, and when they again reached England at 4.62. The delegation was well received in the United States and succeeded in arranging the Anglo-French Loan of £100 million (one-half for Great Britain and one-half for France). This would reduce the amount of gold necessary to ship across the water. The bonds were jointly guaranteed by Great Britain and France, and were repayable at the end of five years or convertible at the option of the holder into 4½% bonds of the British and French Governments, repayable not earlier than fifteen years and not later than

*The $6.00 mark was the result of a temporary upward rush immediately after the outbreak of War. This rise was caused by apprehensions in the United States that the produce could not be marketed as previously.

twenty-five years by the two Governments jointly and severally. Fifty per cent of the loan was payable October 29th and the balance December 3rd. The issue price to the public was 98, and, including redemption, the bonds were to yield £5 9s 3d%.* The whole issue was sold to an underwriting syndicate at 96 so that as far as the British Government was concerned the rate of interest to be paid was £5 18s 10d%. This is a high per cent in comparison with loans floated in Great Britain or France but investment conditions are different in the United States. The Government was severely criticised for not securing better terms.# The exchange was restored to 4.72, saving losses which otherwise would have been sure to occur. Internal loans by Australia and Canada for their war expenses also relieved Great Britain.

A further scheme devised by the Chancellor of the Exquecher was to borrow American and Canadian railroad and industrial securities and issue a marketable certificate in return entitling the owners not only to the interest which their securities gave but also to ½% interest over and above those returns. The deposited securities were then used as collateral for temporary loans raised in the United States. The Treasury reserved the right to dispose of the deposited securities at any time if it so desired. If this option were exercised the Government agreed to pay to the depositor in sterling the value

*Frequently instead of giving the rate of interest in per cent the British state the terms in the amount of money to be received as interest per £100; £5 9s 3d % is about 5½ %.
#British War Finance, 1914-1915, Lawson, pp. 281-283.

of his securities, based upon the closing quotation in New York on the day of sending notification of sale, with an additional $2\frac{1}{2}$% on the value so calculated.* The British Government offered to purchase securities outright from the owners who were willing to sell, giving in return 5% ExchequerBonds. A credit of £10 million was thus created by the middle of November. Mr. McKenna estimated that there were from £300 to £800 million of these securities available if they could be attracted. Such an expedient could not be a permanent remedy. There was after all a limit to those securities. Then too, large holders would be in a measure unwilling to sacrifice their future prospects to share an increased value.

The rate on Treasury Notes was advanced for the purpose of appealing to American investors. On October 27th the new rates appeared thus:-

$4\frac{3}{4}$ %	- - - - - - -	three months
4-7/8%	- - - - - - -	four months
5 %	- - - - - - -	nine months and one year

On November 13th the 5% rate applied to all the bills.

By these various means the exchange was restored to 4.77-7/8 on January 6th, 1916 and was maintained fairly constant. In 1915 and up to March 4th, 1916, Great Britain sent directly or indirectly to America £80 million gold.

(b) The £600,000,000 Loan

On April 13th a new policy was put into effect of issuing Treasuries daily at published rates of interest in contrast to the former method of bringing them out at stated

*Statist, August 19, 1916, pp. 343-344.

intervals in fixed amounts. Low rates were secured, for example $2\frac{3}{4}\%$ for three month bills, 3-5/8 for six month and $3\frac{3}{4}$ for nine month and one year. In a month and a half £115,785,000 were placed (£15,582,000 a week) and by June 21st £235,000,000.* The reason for this great popularity was the scarcity of bank and commercial bills in London. The normal supply of £400 million was depleted, some estimate 40% and others 60%. This vacuum was filled with Treasury Notes. In addition many persons and firms were keeping unusually large cash balances on hand against contingencies and instead of investing the money were disposed to place it in Treasury Notes.

Treasury Notes have their disadvantages. They are liable not to be renewed upon maturity when the Treasury needs funds most, when it might be most inconvenient to buy them out. If trade with young countries revives or investors desire to purchase new war stock with their savings the quantity of bills in circulation can not be maintained. In the second place, by means of Treasury Bills bankers'money and not public money (if we may make that distinction) is borrowed. Furthermore, large emissions boost the interest rates. Accordingly, on June 21st, 1915, the issue of the second permanent loan was announced.#

The time was ripe.x The money market had passed thru the complete stagnation of the early days when money was neither cheap nor dear because not obtainable. Old loans had been continued simply because they could not be paid. This state of

*Statist, May 29, 1915, pp. 521-522 & June 19, p. 664.
#House of Commons, Vol. 72, Cols. 950 & ff.
xBritish War Finance, 1914-1915, Lawson, p. 279.

affairs led to considerable anxiety and a general desire to be prepared against the future. Cash was kept on hand with a resulting great increase in the deposits of the banks. The custom of the Government in paying cash rather than creating bills further increased the difficulties of bankers in finding employment for their funds. The Loan of November 1914 was accompanied by a return of floating capital from abroad. The Treasuries had taken the place only of commercial bills. The bankers could not invest in the new loan heavily and it was also believed that the general public would subscribe liberally. The Loan was offered at par with a bonus of a full half-year's interest, payable on December 1st, 1915. The bonds could be redeemed at par 1925 or at any subsequent date and fell due 1945. The interest rate was 4½%.* If a future Government loan was issued at a better rate (other than short-term paper) the holder could convert the bonds into the new loan. Both the wage-earning class and the well-to-do were appealed to. Applications for the loan were received at the Bank of England for £100 or multiples thereof and at the Post Office for £5 or multiples thereof at the rate of £4 19s 4d fully paid stock, 8d representing the discount for payment in advance. Post Office script vouchers of the value of 5s, 10s and £1 could be purchased which when they reached £5 or any multiple of £5 could be exchanged for the bonds. Wage-earners were thus enabled in a time of high wages to make provision for a future perhaps less favorable. Stock of the previous war loan floated on a 4%

*Statist, June 23, 1915, pp. 703-705.

basis could be exchanged for the new bonds by subscribing an additional £100 per £100 exchanged and the payment of £5 in cash on account of the discount at which the former loan was issued. Holders of Consols bearing 2½% interest, could cover £75 into £50 of the new War Loan if they also bought for cash £100 more new stock. Annuities bearing 2¾% and 2½% could be exchanged £67 for £50 and £78 for £50 respectively of the new War Stock if an additional £100 cash was also invested in this stock.

No limit was placed on the amount which might be subscribed for the Loan.

#Toward the close of the calendar year the demand for Treasury Bills indicated that the people were ready to invest for short periods. Hence the Treasury authorized the Bank of England to receive applications for Exchequer Bonds. These bonds bore 5% interest and were repayable on December 1st, 1920. They could be converted at face value into future loans other than issues made abroad or issues of Exchequer Bonds, Treasury Bills, or similar short dated securities for war purposes. If the owner was neither domiciled nor ordinarily resident in the United Kingdom the bonds were free from British taxation. The amounts were £100, £200, £500, £1000, and £5000. If they desired, holders of American securities could sell them to the Chancellor of the Exchequer and invest the proceeds in the bonds. Banks and insurance companies raised about £570 million and the general public pushed the amount up to £592,345,000 in November.*

#Statist, (London), July 17, 1915, pp. 99-100.
*London Economist November 20, 1915, p. 853.

£347,500,000 of this amount was conversions, as follows:

Consols	($2\frac{1}{2}$%)	- - - -	£204,000,000
Annuities	($2\frac{1}{2}$%)	- - - -	7,500,000
Annuities	($2\frac{3}{4}$%)	- - - -	1,000,000
November War Loan	($3\frac{1}{2}$%)	- - - -	135,000,000
			£347,500,000

Previous to this war the largest loans ever floated by a European Government were £80 million and £120 million by the French Government in 1871 and 1872 respectively to pay off the Prussian indemnity. The larger loan was then oversubscribed twelve times (five times by the French nation and seven times by foreign investors.) Before 1914 Great Britain's largest single loan was £60 million in 1901 during the Boer War.

(c) The Economy Campaign.

Before the middle of 1915 the feeling that "business as usual" was not the proper attitude began to assert itself. The Prime Minister, Chancellor of the Exchequer, and other Cabinet Members addressed meetings in the Guild Hall. Mr. McKenna on one occasion said: "The purpose of this meeting is economy - private, individual economy by local authorities, economy by Government Departments, economy throughout the nation in the consumption of commodities." Trade returns showed that the laboring class was importing all kinds of luxuries from America and was spending recklessly.* Bonar Law at another meeting drove home the necessity for increased saving and reduced expenditure. He said: "All money that is spent in these days on superfluous comforts or luxuries, whether in the shape

*Speeding the Silver Bullets, Lewis R. Freeman, Review of Reviews December 1915.

of services, means the diversion of energy which can be better employed in the national interests, either in supplying the needs of our fighting forces in the field, or in making commodities for export which will go to reduce our indebtedness abroad. And on the other hand, every saving we make by the curtailment and limitation of our productive expenditure increases the resources which can be put by our people at the disposal of the State for the triumphant vindication of our cause."* Committees such as the National Organizing Committee for War Savings and the Central Advisory Committee for War Savings were formed. Meetings were held throughout the country, instructive competitions staged, lectures and exhibitions given, and posters and literature freely used. The retrenchment Committee found that many wasteful methods had been in operation in the Civil Departments. A saving of £332,300 was effected in the Civil Service. Efforts to secure permission to include in the work of the Committee an examination of the Army and Navy were unsuccessful.# However, thru the Chancellor of the Exchequer, Secretary of State, and the First Lord of the Admiralty an independent investigation was carried on. Many extravagances existed, such as the paying of £5000 retainers' fees to physicians while allowing them to keep their private practices, paying twice for the same supplies, granting officers unwarranted additions of pay, hiring of nine ships at monthly cost of £86,000 to accommodate interned aliens of military age.

*Statist, July 3, 1915, p. 14.
#Statist, March 18, 1916, p. 487.

Government contracts were examined and camp ration and freight bills looked into. Pamphlets were issued and widely distributed.* Strenuous endeavors were put forth toward the close of the year to promote the economy which the conditions warranted. The Prime Minister stated the demands under four heads:

(1) Economy both in public and in private expenditures.
(2) The assistance of all classes in meeting the necessary expenditures of the State,
(3) Diminished consumption and increased production.
(4) Smaller imports and greater exports.

An estimate was made by Sir A. Markham (though probably somewhat exaggerated) of a daily waste of one million pounds sterling.#

(d) The September Budget.

Over a month before the appearance of the budget a deputation of bankers and merchants of London called on Mr. Asquith and urged strict economy and new taxation. The thrifty one-ninth of the people had supported the loans and it was now time to secure contributions from the other eight-ninths. Apparently this could be done only through taxation. Viewed from the side of expenditure, it was argued that borrowing tends to lead to extravagances and price inflation. For the most part investment in the loans had been made not from additional saving but from borrowing. What was needed was a reduction in the consumption of luxuries and comforts so that capital and labor would be released for war purposes. The economy campaign was not proving sufficiently effective, and so the Government

*House of Commons, Vol. 75, Col. 1201.
#House of Commons, Vol. 75, Cols. 1226-1227.

was urged to use the force of taxation.

On September 21st Mr. McKenna, the new Chancellor of the Exchequer, presented the 1915 Budget, long delayed.* His speech was short, taking only about an hour and a quarter and was a marvel of clearness and force. The bankers and financiers who came late to avoid the usuak much - extended preliminary remarks arrived after the speech was finished, to their surprise and chagrin.

The Budget created strong feeling and strange to say brought forth the conflicting criticism of being too extreme and of being too moderate. On one point all agreed - that the estimated expenditure for the coming year of £1590 million was a staggering sum to raise.# The argument was on the means to be employed to obtain the money. The conservative London Economist in its issue of September 25th (page 463) pronounced the speech of the Chancellor as "a plain unvarnished statement of unparalleled revenues, an inconceivable expenditure, and an unimaginable deficit, followed by a lost of fresh taxation which imposed an unprecendented burden on the country." Not all journals were so deeply stirred. The Statist in its issue of September 25th (page 485) was of the opinion that the budget was "made up of half measures, and while it might cause thought, did not solve the problem." The taxes were just enough to make the country feel tham and would lull it into the fallacious notion that no further effort need be put forth. Drink (in spite of the enormously increased consumption) was permitted to

*British War Finance, 1914-1915, Lawson, pp. 324,327.
#Economist, September 25, 1915, pp. 463-464.

go scott free on account of the opposition of certain interests. No check was imposed on unnecessary travel, on theatre going, or on the "pleasures of the picture palace". The rich were not hindered in "absorbing the services of men servants and maid-servants who could be better employed". Motor-spirits were too lightly affected.

As time passed the general feeling was that the taxes were inadequate both for revenue and for the reduction of the consumption of luxuries. Once more had the Government taxed lightly and invited the nation to make the necessary economies in domestic expenditure voluntarily. Consequently extravagances continued in spite of an adverse trade balance of £600 million a year. The criticism did not apply to all parts of the budget, There were features which were worthy of high praise. The excess profits tax was introduced for the first time, and called for 50% of the annual surplus profits where the increase since the War exceeded £100. A pre-war standard of profits was used, based on the average of any two out of the three last pre-war trade years, choice to be accorded the tax-payers.* If the latter could show the Commissioners of Inland Revenue that the amount was less than 6% on the capital as existing at the end of the last pre-war trade year, the pre-war standard of profits would be taken as equal to 6% if the business by a company or other corporate body and 7% otherwise. The last pre-war trade year was defined as the year ending at the close of the last accounting period before August 1st, 1914.

*Excess profits Duty, W.E. Snelling, pp.30,31,33.

The income tax and the super-tax were increased, the exemption limit lowered, and fewer abatements granted.* A distinction was made between "earned" and "unearned" incomes. The income tax was now to begin at £131, at the rates of 2.1d per pound sterling for wholly earned, 2.8d for partly earned, and 2.8d for wholly unearned incomes. The rates in per cent are .825 % , 1.166%, and 1.166 %,respectively. The upper limit in the rates was made 3s 6d in the pound for all three classes, 1s higher than in November,1914.x The super-tax ran from 10d to 3s 6d (i.e. from 4.166 % to 17½ %) per pound, graduated from £2500 to £10,000.ø # The duty on sugar, a Government monopoly, was raised from 1s 10d to 9s 4d. The rates on tea, tobacco, cocoa, coffee, chicory, and dried fruits were increased 50 %. Motor spirits bore 3d per gallon. Import duties of 33 1/3 % ad valorem were imposed on the following articles, partly for revenue and partly to discourage importation:

Patent medicines, automobiles, motor-cycles, cinema films, clocks, watches, musical instruments, plate glass, and hats. On September 30th the tax on hats,plate glass and commercial motor cars was dropped. ø Postal,telegraph, and telephone (all three state owned) rates were increased. The proposal to abolish the half-penny postcard met with no favor and so was abandoned.

*How Britain Pays Her War Bills, Review of Reviews, December, 1915, Vol. 52, p. 727.
øIncome Tax Practice, W. E. Snelling, See Supplement pp. 5-29.
#British War Finance 1914-1915, W. R. Lawson, page 328.
xWar Finance - Sir George Paish, in Journal of the Royal Statistical Society, Vol. 79, page 282.
øThe Economist (London), October 2, 1915, page 500.

Chapter Four

The Fiscal Year 1916-1917

(a) The Third War Budget

No finance measures of importance were in the foreground during the six months following September 1915. There was considerable discussion, of course, as to the best method of procedure for the fiscal year 1916-1917 and an abundance of speculative prediction. In April, 1916, the Third War Budget was presented. There was no uncertainty in Mr. McKenna's speech. His first object he said was to secure revenue. Innumerable small taxes had been urged upon him, but they could at best be of but of little use for his purpose. They would only bring in a small revenue, would cause much inconvenience, and would be "costly to collect". To use his own words further - "There is a limit in practice to the number of new taxes which may be imposed at any time".* Accordingly the policy was adopted of increasing the existing taxes in amount and range and of adding only a few entirely new sources of revenue. The object was three-fold: to obtain sufficient revenue to meet the expenditure for civil purposes, to pay as large a proportion as possible of the cost of the War, and to distribute fairly the burden of taxation over the whole community. It was estimated that the total expenditure for the year would be £1825 million, that is, five million pounds sterling a day. The £1825 million was arrived at#

*War Finance, J. A. R. Marriott, Nineteenth Century, May, 1916, Vol. 79, pp. 1124-1142.
#House of Commons Parliamentary Papers, Vol. 81, Col. 1055.

in the following manner:

		£ million
Navy, Army, Ministry of Munitions	1120	
Miscellaneous	30	
		1150
Advances to Allies and Dominions		450
Consolidated Fund Services (including debt charge)		138
Civil Service, Customs, Excise and Inland Revenue		60
Post Office		27
Total		1825

The Chancellor expected to obtain about £509,275,000 gross revenue, or, allowing for seven million pounds sterling forestallments (i.e. clearance of dutiable goods in anticipation of higher taxation) a net revenue of £502,275,000. The actual expenditure proved to be £2,198,113,000 - much more than the estimate - and the revenue returns £514,106,000 from taxes and £59, 322,000 from non-tax sources.

The income tax was arranged according to the following graduated scale:*

Income Tax per £

	Earned		Unearned		Former Unearned	
	s	d	s	d	s	d
Under £300	2	3	3	0	3	0
Between £300 and £500	2	3	3	6	3	0
" £500 and £1000	2	6	4	0	3	6
" £1000 and £1500	3	0	4	6	4	0
" £1500 and £2000	3	8	4	6	4	6
" £2000 and £2500	4	4	5	0	5	0
Above £2500	5	0	5	0	5	0

(2s 3d is at the rate of 11.25 % and 5s at 25 %.)

The method of collection at the source was employed at the maximum rate, regardless of exemptions and abatements. Applications for recovery had to be made and involved considerable

*War Finance, Paish, J. of the Royal Statistical Soc.,May'16p.282

inconvenience and sometimes even hardship.* The super-tax remained the same except that the point at which it began was raised from 3s 6d to 5s. The excess profits tax was raised to 60 %. It was estimated that this extra 10 % would yield more than all the other additional taxes combined. Controlled establishments were required to turn over 80 % to the Ministry of Munitions.

Perhaps the most popular tax was that on amusements, such as cinemas, theatres, music-halls, boot-ball matches, horse races. The rates were from ½d on tickets not exceeding 2d up to 1s on tickets of over 7s 6d, with an additional 1s for every 10s or part of 10s over 12s 6d.#

One-half pence per pound was added to the sugar duty. Protests were made on the ground that the amount contributed depended not upon the ability to pay but on the size of the family. Mr. McKenna replied that through the Government monopoly the price had been kept lower than conditions warranted, and lower than the price in New York City.ø The duty on cocoa was quadrupled (from 1½d to 6d), and that on coffee and chicory doubled (from 3d to 6d). Tea was left at 1s. Opposition resulted in an equalization of the"breakfast cup" duties by the lowering of cocoa and raw coffee to 4½d a pound, thus establishing between these two and tea the more approved ratio of 3 to 8. Cider and perry bore 4d per gallon and table waters containing sugar, or

*The Nations Balance Sheet, H.J.Jennings, Fortnightly Review Vol. 105, page 894.
#Statist, April 8, 1916, pp. 627-629.
øThe House of Commons Parliamentary Papers, Volume 81, Column 1059.

which were fermented, the same amount, while 8d per gallon was placed on other table waters. This was the first time in recent years that a duty had been levied on these drinks. Cider was taxed in the eighteenth century.* The spirit taxes were unaltered. Temperance advocates expected fresh duties along this line but since the returns were already falling off and the taxes were for revenue purposes only they were not increased. British matches bore an excise of 3s 4d per 10,000 and imported matches a customs duty of 3s 6d per 10,000. This tax raised a little comment though some regarded it as "niggling". The same might be said of the taxes on table waters, cider, and perry.

Motor cars up to sixteen horse-power were to pay from £41 4s to £81 8s and those exceeding sixteen horse-power from £181 18s to £1261. The pre-war rates were £21 2s to £41 4s and £61 6s to £421. These heavy license duties were afterwards dropped. The substitute adopted required all car users to obtain a permit before they could buy petrol and for this permit to pay 6d a gallon, with half rates for doctors, veterinary surgeons, and commercial users. Thus the tax was transferred from the ownership to the use of cars. # Later on commercial users were exempted. The wisdom of this last step might with reason be doubted. The owners had the ability to pay, the machines were hard on the roads, and economy in the use of petrol was imperative.

*War Finance, J.A.R. Marriott, Nineteenth Century, May 1916, Vol. 79, pp.1124-1142.
#The Economist (London) Vol. 82, pp.662-663.

The Chancellor offered a plan whereby he expected to receive about three million pounds sterling from railway fares.* One pence was to be charged on single fares exceeding 9d and not over 1s; 1d per 1s or part of 1s was to be charged on single fares exceeding 1s and on single and return fares over 1s 6d. Season tickets were subject to the same provision. All journeys partly or wholly by rail commencing in the United Kingdom and ending outside the British Isles were to carry a duty of 4s on the first-class fare, 3s on the second, and 2s on the third.# All railway receipts except in the Tubes go direct to the Government and so the collection would be a simple matter. A further favorable argument would be the diminishing or the eliminating of "joy-riding". The measure was not well received in the House of Commons.ø The numerous exemptions which would be claimed and the fact that the railroads had already abolished excursion rates and raised the fares caused the tax to be abandoned. It was argued that the increased fares, as they then stood, would bring in the desired revenue.

The Budget was a step in the right direction. Compared with past budgets the taxation was heavy, yet it was borne with scarcely a murmur. Perhaps Mr. McKenna held the view expressed by Montesquieu in "Esprit des Lois". "It is a general principle that the greater the degree of liberty enjoyed by the subject, the heavier taxation may be". It may be that the people did not fully realize the significance of the measure or

*House of Commons, Vol. 81, Col. 1058.
#Statist, April 8, 1916, pp. 627-629.
øStatist, April 15, 1916, p. 678.

that pride prevented whining. It is more likely, however, that the seriousness of the conflict was making an impression and that patriotism was asserting itself.

(b) The Mobilization of Securities (Scheme B)*

The scheme for the mobilization of securities inaugurated in 1915 was not yielding the desired returns. The Chancellor, therefore, decided to impose a tax of 2s in the £ (in addition to the regular 5s) on incomes derived from any stocks, shares, or other securities which the Treasury was "willing to purchase in connection with any arrangement for the regulation and maintenance of the foreign exchanges," and to give no exemption, abatement, or relief under the Income Tax Acts "in relation to such additional duty except in favor of the income from any securities for the time being deposited under any scheme for the regulation or maintenance of the foreign exchanges or of the income of any securities belonging to any institutions trading in foreign countries under the regulation of the local law." The 2s tax helped, but expenditure increased so fast that the scheme was not long sufficient.

In the middle of August, 1916, Scheme B was brought forward. This plan included a larger variety of bonds and stocks.# The new list covered a rather wide field, for example, certain bonds of the Governments of Argentina, Brazil, Canada, Chile, Denmark, Egypt, Holland, Swiss Government Federal Railways, and the municipalities of Copenhagen and Stockholm. Furthermore,

*The Times (London), August and September 1916.
#Literary Digest, September 2, 1916, pp. 584-587.

"prior charge stocks were included and in a few instances, also preference stocks," of the Canadian Pacific, the Canadian Northern, the Grand Trunk and the Grand Trunk Pacific Railways, as well as the five more important Argentine lines - the Argentine Great Western, the Buenos Ayres Western, and the Central Argentine. It was understood that the list might be still further extended if considered advisable. These securities were to be loaned (not purchased) to March 31, 1922. The Treasury reserved the right to return the securities to the depositors at any time after March 31, 1919 upon giving three months' notice of intention to do so. As in Scheme A of 1915 (known as the American Dollar Securities Plan) the Treasury handed over to the lender all interest due on the securities and in addition ½% per annum on the face value of the bonds and stocks. The securities were to be sold in case of the default of the Government on its loan. It was supposed that the Treasury would not dispose of any of the securities though it held the right to do so if the necessity arose. In that event the lender would continue to receive from the Treasury the same payments - his regular interest plus ½% - as if the securities had been retained, until the end of the loan period. Then securities of the same description and nominal value as those originally deposited, or, at the lenders' option, the deposit value of the securities, with an addition of 5% on that value would be returned to him. In return for the securities loaned the Treasury issued deposit certificates, available as collateral for bankers' loans, etc. The 2s tax was removed and action was made purely voluntary. It

should be noticed that in so far as British holdings in railways were concerned only prior charge stocks were included, Thus the governing control was not jeopardised. The minimum amount of bonds or stocks receivable was £1000 or £5000 but small investors could co-operate with the bankers and stockholders. Transfers by depositors from Scheme A to Scheme B could be made if notice was given by September 14th, 1916.*

On August 24th another quantity of securities was needed by the Treasury. Bonds of the Governments of Argentine, Chile, Denmark, Norway and Sweden, of the municipalities of Amsterdam, Christiana, Copenhagen, and Stockholm, and various Canadian Railway bonds guaranteed by the Canadian Pacific Railway Company, and certain bonds of the Chilean Northern Railway bearing the guarantee of the Chilean Government were gathered in. The original list under Scheme B contained sixty-six securities of a nominal value of approximately 600 million, and this second list added forty-eight securities the face value of which amounted to over £60 million and the market value to about £55 million.

(c) British War Borrowing in the United States. #

As a result of Scheme B the "United Kingdom of Great Britain and Ireland Loan" calling for £50 million was floated in the United States September 1st.ø Two year Gold Notes were given maturing September 1st, 1918 and bearing 5% interest and free from all British taxation. They were offered to investors

*Statist, August 19, 1916, pp. 343-344.
#The Times (London), September to December inclusive, 1916.
øCommercial & Financial Chronicle, Vol.103, p.1262.

at 99. Great Britain had the option of redeeming a part or the whole of the notes on giving thirty days' notice up to August 31, 1917 at 101 and thereafter to August 31, 1918 at 100½. The purpose was to appeal to the large financial interests of the United States. The notes were underwritten at 98 by a powerful banking syndicate headed by J. P. Morgan & Company. The notes were secured by collateral the value of which was to be maintained during their currency at 120% of the loan. For this purpose £60 million (market value) of stocks and bonds were deposited with the Farmers Loan and Trust Company of New York City. The collateral consisted of three distinct groups of securities, each group of the same value;

(1) The first block comprised United States railroad and industrial bonds, notes, and stocks.
(2) The second block was made up of Canadian Government securities or securities guaranteed by the Dominion Government and bonds and stocks of the Canadian Pacific Railway.
(3) The third block contained securities of the Governments of Argentina, Chile, Denmark, Holland, Norway, Sweden, and Switzerland.

A number of the securities of the third group had not reached New York at the time of the Loan and so New York Stock Exchange collateral and cash were deposited temporarily. Any of the deposited securities could be substituted for others but relatively the amounts of the three blocks were not to be changed.

Without going into detail regarding other loans made in the United States the following table will give a good idea of their extent: *

*Extracted from a summary in the Statist (London), June 16, 1917, pp. 1176-1177.

British War Loans Raised in the United States

Description	Amount 000's £ omitted	When issued	Rate of interest %	Issue price	Date of maturity
British Banking Credit . .	10,000	------	5	-----	June 20,1917
Wheat Purchase Credit .	5,000	------	-----	-----	------------
Metropolitan Water Board Notes . . .	1,280	Sept.1916	6	-----	Sept.18,1917
Coll. Notes:					
1 year . . .	20,000	Jan. 1917	$5\frac{1}{2}$	99.52	Feb. 1, 1918(b)
2 year . . .	50,000	Sept.1916	5	99.	Sept.1, 1918
2 year . . .	30,000	Jan. 1917	$5\frac{1}{2}$	99.07	Feb. 1, 1919(b)
3 year . . .	30,000	Oct. 1916	$5\frac{1}{2}$	99.25	Oct. 31,1919
British Portion of Anglo-French Loan (no coll.) . .	50,000	Oct. 1915	5	98.	Oct. 15,1920(a)
5 year Coll. Notes . . .	30,000	Oct. 1916	$5\frac{1}{2}$	98.50	Oct. 31,1921
Total	226,280				

(a) Convertible at the option of the holder into $4\frac{1}{2}$% bonds repayable not earlier than fifteen years and not later than twenty-five years from the original date of the loan.

(b) Convertible at the option of the holder into $5\frac{1}{2}$% bonds maturing in twenty years.

In December 1916 £10 million of 6% Exchequer Bonds were sold to Japan.

The Federal Reserve Board of the United States addressed a warning to the National Banks of the United States advising against paper which was not liquid. The Board said - "Further investments in paper of this character and extension of credits to the belligerents are not healthy banking but are directly the province of investors who are willing to take the risk in the outcome." It seemed probable that the War would be

a prolonged struggle and that borrowing would continue. The short dated paper would be converted into long-term bonds later on and too large a proportion of what ought to be banking reserve would be locked up. At this time the twelve District Reserve Banks held over £81½ million (407½ million dollars) in reserve and the member banks over £103 million (515 million dollars). It was only natural that there would be a tendency to invest freely. Some fears were entertained in Great Britain that the admonition might seriously affect British finance.*

(d) The Victory Loan #

In endeavoring to grasp every opportunity to obtain funds where they were to be had, many devices were resorted to. About the first of June 1916 War Expenditure Certificates were issued in amounts of £1000, £5000, £10,000, drawn for two years at 5%. Bankers, business firms, and investors found at their disposal a variety of maturities from three months to a little over five years, for example: three, six, nine, and twelve months Treasury Bills, two year War Expenditure Certificates, three and five year Exchequer Bonds. The War Savings Certificates reached down to the lowest incomes. There was no tax on them and the only restriction was that no one person could hold more than five hundred Certificates.ø

The Currency Notes were greatly increased. The rise in the price of commodities made necessary a larger amount of currency for daily payments. It was also true that general pros-

*Statist, December 2, 1916, p.1194.
#The Times(London),' January, February, March, 1917.
øStatist, June 10, 1916, p.1194.

perity caused the people to carry more cash in their pockets. The Notes outstanding at the beginning of 1915 were £38 million; at the beginning of 1916 £103 million; and by the middle of the year £117,536,000.*

Early in December 1916 J. P. Morgan & Company was authorized to sell, in the United States, British and French Treasury Bills for thirty, sixty and ninety days, not renewable. On the 31st of the month the withdrawal of the 6% Exchequer Bonds, the War Expenditure Certificates, and all classes of Treasury Bills, leaving only the War Savings Certificates for borrowing purposes showed plainly that a loan was soon to be made.

The Bonds were offered in January 1917 and were of two classes. Class A, issued at par, paid 4% throughout the period of the loan (redeemable in twelve years and repayable in twenty-five years) without income tax. Class B, issued at 95, bore 5% throughout the period of the loan (redeemable in twelve years and repayable in thirty years) subject to an income tax. The rate might go up or might drop. The tax at the time was 5s in the pound. It would be a question as to whether the bonds of Class B would yield more or less in the long run than those of Class A. Foreign and Colonial holders of this 5% form of loan were not liable for British taxation. The tax of 10s fee per deed of power of attorney for non-residents in London or Dublin or persons unable or unwilling to attend personally at the bank in regard to inscribed stock, etc. was removed. Registered

*Statist, May 27th, 1916, p. 976.

stock was not charged income tax at the source. Subscriptions could be made for £50 allotments or multiples thereof or through the Post Office for £5 and upward.

A sinking fund of 1½% per annum was provided for the purchase of the bonds of either loan for cancellation when the market price fell below the price of issue. In this way the market would be steadied. Purchases were to be made when £10 million had accumulated in the sinking fund.

Death duties could be liquidated by tender of either of the two forms of loan at issue prices, providing the deceased had had the securities six months before his death.

The Loan was for an unlimited amount. The Chancellor of the Exchequer and the Prime Minister both clearly indicated that no future loan would be on better terms. Other methods would be resorted to rather than to offer more. Of course at the time it was not known to what extent further loans would be necessary.

Applications for the 5% issue, including conversions of Treasury Bills, equaled £966,048,000 and of the 4% issue, including conversions of Treasury Bills, £22,658,000, making a total of what may be called "new money" of £988,672,000 of the new War Stock.* There were over five million subscribers.# Holders of £779,956,000 of the 4½% loan of 1915 applied for £821,005,000 and holders of £268,656,000 of the 5% and 6% Exchequer Bonds for £282,792,000 of the new 5% loan. The nominal amount of Class B outstanding is £2,069,845. Conversions from

*Statist, May 5, 1917, pp.765-766.
#Economist, March 3, 1917, p.424

the 4½% loan and from Exchequer Bonds into the 4% loan accounted for £28,726,000 bringing the tax-free issue up to £51,384,000. It is significant that only 2.42% of the applications were for the tax-free issue. The following table shows the success of this Third Great War Loan. The figures need no comment:

The Third War Loan

	5% Loan	4% Loan	Total Nominal Amount
New subscriptions including Treasury Bills of £130,711,950	£ 966,048,000	22,658,000	988,706,000
On stock exchanged: 4½% Loan £821,005,000; 5% & 6% Exch. Bonds 282,792,000 Total	1,103,797,000	28,726,000	1,132,523,000
Total Stock Outstanding	£ 2,069,845,000	51,384,000	2,121,229,000

Chapter Five

Summary And Conclusions

(a) Taxation

In August 1914 Great Britain was not prepared for a great war, for a protracted, intense struggle with a powerful military nation. She had not set herself to that end. It is true that she had kept an ever watchful eye on rival navies but her army was very small. The energies of her people had been devoted rather to the building up of her foreign trade. An era of unrivaled prosperity had been ushered in. Men did not believe that nations would dare to risk their all to the ravages of a modern world war; at least they did not conceive that such a catastrophe was at all imminent. With their heads in the sand they had a feeling of security and conducted their affairs accordingly. Criticism must bear lightly, however, for this delusion was almost universal among nations.

A week before the War broke out, when the clouds were very black, the opinion of experts that the financial system of Europe could not stand the strain of a general war was so firmly fixed in the minds of the statesmen that Sir Edward Grey (the British Minister of Foreign Affairs) said to the Austro-Hungarian Ambassador in London: "The possible consequences of the present situation are terrible. If as many as four great powers of Europe - let us say Austria, France, Russia, and Germany - were engaged in war, it seems to me that it must involve the expenditure of so vast a sum of money and such an interference

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

with trade that a war would be accompanied or followed by a complete collapse of European credit and industry".* The full weight of this statement is yet to be tested.

For many months Great Britain entertained the blind faith that the War would soon be over. She did not see how deeply the plans of the enemy were laid, backed by some fifty years of preparation on an enormous scale and perfected to the minutest detail. She could not grasp the full meaning of the situation. Accordingly, while the policy of heavy taxing during war times was advocated as sound, the principle was all too slowly applied. The following table of customs and excises for the three budgets as compared with pre-war rates makes this point clear:

War Taxes; Customs and Excises ø

	Prior to war		November 1914		September 1915		April 1916	
	s	d	s	d	s	d	s	d
Tea . . . . per lb.	0	5	0	8	1	0	------	
Beer (foreign). . per barrel	8	3	25	6	------		------	
Beer (home) . . . per barrel	7	9	25	0	------		------	
Cocoa . . . . per lb.	0	1	------		0	1½	0	4½
Coffee . . . . per cwt.	14	0	------		21	0	42	0
Chicory (customs) per cwt.	13	3	------		19	10	39	8
Chicory (excise) per cwt.	12	1	------		18	8	38	6
Dried Fruits:								
Currants . . . . per cwt.	2	0	------		3	0	------	
Figs, plums, raisins, etc. . . . . per cwt.	7	0	------		10	6	------	
Sugar (customs) . . per cwt.	1	10	------		9	4	14	0
Sugar (excise) . . per cwt.	------		------		7	0	11	8
Table waters containing sugar or fermented per gal.	------		------		------		0	4
Other . . . . per gal.	------		------		------		0	8
Cider and perry . . per gal.	------		------		------		0	4
Tobacco, unmanufactured and unstripped # . . per lb.	3	8	------		5	6	------	

*The Independent, February 19, 1917, page 299.
#All duties on tobacco were correspondingly increased.
øWar Finance, George Paisn, J. of Royal Stat. Soc., May 1916, pp.281-282. (Corrected).

	Prior to war	November 1914	September 1915	April 1916
	s d	s d	s d	s d
Motor spirit . . . per gal.	0 3	------	0 6	------
Patent medicines, per 1s bottle	0 1½	------	0 3*	------
Matches:				
Small boxes				
Customs, per 10,000 matches	------	------	------	3 6
Excise, per 10,000 matches	------	------	------	3 4
Large boxes				
Customs, per 10,000 matches	------	------	------	1 9
Excise, per 10,000 matches	------	------	------	1 8
Cinema films, clocks and parts, watches and parts, musical instruments . . .	------	------	ad valorem 33-1/3%	------
Imported motor cars and motor cycles	------	------	ad val. 33-1/3%	------
Motor car license duty:				
Not exceeding 16 h.p. . .	21.2s to 41.4s	------	------	**41.4s to 81.8s
Exceeding 16 h.p.	61.6s to 421.0s	------	------	**181.18s to 1261.0s
Motor cycles:				
Not exceeding 4 h.p. . .	1	------	------	(21.2s
Exceeding 4 h.p.	1	------	------	(¾ of duty payable in case of a motor car
Entertainments:				
Up to 2d	------	------	------	0 ½
2d to 6d	------	------	------	0 1
6d to 2s 6d	------	------	------	0 2
2s 6d to 5s	------	------	------	0 3
5s to 7s 6d	------	------	------	0 6
7s 6d to 12s 6d	------	------	------	1 0
Every 10s or part of 10s over 12s 6d	------	------	------	1 0

*Dearer medicines increased in proportion.
**Later dropped.

The income and super-taxes made a better showing and the excess profits tax, though tardily adopted, yielded good returns and was a splendid innovation. This tax was strictly a war measure and was devised to take in the abnormal profits being made off of the country's necessity. Seven years before the War Mr. Asquith, then Chancellor of the Exchequer, declared the income tax to be an "integral and permanent part" of the present financial system. In the Budget speech of 1909 Mr. Lloyd George said: "The Income Tax, imposted originally as a temporary expedient, is now in reality the centre and sheet anchor of our financial system". The following table shows the changes made in the rates of these three taxes including April, 1916:

War Taxes; Income Tax, Super-tax, and Excess Profits Tax.*

	Prior to war	November 1914	September 1915	April 1916
Income tax#	1s. 3d per £	2s 6d	3s 6d	5s 0d**
Super-tax	6d per £ over £5,000	10d to 2s 8d graduated from £2,500 to £8,000	10d to 3s 6d graduated from £2,500 to £10,000	
Excess Profits tax	Nil	Nil	50 per cent	60 per cent

#The basis of taxation under Schedule B (charged in respect of the occupation of lands) from one third to the full amount of the annual value.
**Graduations also changed. Rate 2s 3d in the £ on earned incomes not exceeding £500; 2s 6d from £500 to £1000; 3s from £1000 to £1500; 3s 8d from £1500 to £2000; 4s 4d from £2000 to £2500; 5s over £2500. Rate 3s in the £ on unearned incomes not exceeding £300; 3s 6d from £300 to £500; 4s from £500 to £1000; 4s 6d from £1000 to £2000; 5s over £2000.

It is difficult to say just what should be the proper proportion between direct and indirect taxation. By a "direct" tax is meant one that is ultimately paid or is intended to be

*War Finance, George Paish, Journal of the Royal Statistical Society, May, 1916, p. 282.

paid by the person from whom it is collected, and by an "indirect" tax one levied upon one person with the avowed intention that the burden shall be shifted to another. The final incidence of a tax is, however, often hard to determine. Taxes which appear to be direct often turn out through the genius of the "dodger" to be indirect. As accurately as can be determined the table following shows the proportion between the direct and the indirect taxation of Great Britain from the time of Sir Robert Peel through the fiscal year 1916-1917:*

Year	Indirect %	Direct %
1841	73.0	27.0
1851	67.0	33.0
1861	62.0	38.0
1871	61.0	39.0
1881	60.0	40.0
1891	55.7	44.3
1900-1	50.6	49.4
1901-2	47.5	52.5
1902-3	47.6	52.4
1903-4	50.7	49.3
1904-5	50.5	49.5
1905-6	49.7	50.3
1906-7	48.6	51.4
1907-8	48.9	51.1
1908-9	47.4	52.6
1909-10	43.6	56.4
1910-11	43.6	56.4
1911-12	42.7	57.3
1912-13	42.4	57.6
1913-14	42.4	57.6
1914-15	40.0	60.0
1915-16	35.4	64.6
1916-17	28.0	72.0

(War profits is figured as a direct tax. Excluding this amount the proportion for 1916-1917 would be 37 to 63.)

Thus in a period covering slightly more than two generations the

*War Finance; The Fourth War Budget, J.A.R.Marriott, Nineteenth Century, Vol. 79, p. 1134, (1891 to 1912-1913 taken from "British Budgets 1887-1913" by Dr. Bernard Mallet).

proportions have been almost exactly reversed. The change has been rather gradual but has been accentuated during the present War. In spite of the opinions of some to the contrary the transition must be regarded as highly commendable as a step toward establishing a more equitable system.

(b) Borrowing

The prompt and efficient service of the Government in adjusting the credit difficulties during the first months of the War is indeed praise-worthy. The problem was handled with a minimum of friction and of ultimate loss. The action of the Government was really daring.

The resourcefulness of the leaders of the nation was put to the test in balancing the stock exchange and in floating the enormous loans. Much is to be said to their credit in this regard. The War Borrowings of the British Government up to March 31st, 1917 were as follows:

War Borrowings of British Government £ 000's omitted.*

Description	Aug.1,1914-Mar.31,1915	April 1, 1915-Mar. 31, 1916	April 1, 1916-Mar. 31, 1917	Aug. 1, 1914-Mar.31, 1917 #
4% & 5% War Loans of 1917	780,377	---------	---------	780,377
War Savings 5 yr.Certif.	72,750	1,250	---------	74,000
Treasury Bills	102,271**	488,818⨍	61,650⨍	448,197
War Expend.2 yr.Certif.	23,561	---------	---------	23,561
Ways & Means Advances	197,630	19,896	---------	217,526
3½% War Loan 1925-28ø	---------	35,798	296,000	331,798
3% Exch.Bonds Mar.1920	---------	25,869**	47,700	21,831
4½% War Loan 1925-45⁊	---------	592,345	---------	592,345

*Statist, April 7, 1917, Vol. 89, p. 589.
#Figures are of amounts still outstanding, Mar. 31, 1917.
**Retired during the year.
⨍Addition for the year.
øThrough conversions £62,774,000 in issue on March 31,1916.
⁊In issue March 31, 1916, owing to conversions.

5% U.S.A.Loan,Oct.'15	----------	50,820	----------	50,820
5%do.Col.LoanSept.'16	50,000	----------	----------	50,000
5½%" " " Oct.'16	60,000	----------	----------	60,000
5½%" " " Jan.'17	50,000	----------	----------	50,000
5% Exchequer Bonds:				
Due Oct.,1919	34,263	----------	----------	34,263
Due Dec.,1920	84,140	153,689	----------	237,829
Due Oct.,1921	62,496	----------	----------	62,496
6%Exchequer Bonds				
Due Feb.,1920	160,952	----------	----------	160,952
6%Exch. Bonds Jap.				
Issue,due Feb.1920	10,000	----------	----------	10,000
Total	£1,617,188	1,325,748	405,350	3,358,286

After a time the Allies learned a great lesson- that it is cheaper for a single Power to borrow and to buy than for all to go into the market at the same time and bid against one another. The United States was of course the principal source of supply for war materials. Food, munitions, and equipment were furnished in enormous quantities. A central purchasing organization effected a considerable saving in spite of the high prices in America. This task of buying abroad for the Allies accounts to some extent for the necessity of raising such large sums. Bonar Law in his budget speech of May second, 1917 gave the total amount loaned by Great Britain to the Allies and Dominions to March 31, 1917 as £970,000,000, distributed as follows:

	Advances Aug. 1, 1914- Mar.31, 1916	Advances Apr. 1, 1916- Mar.31, 1917	Total Aug. 1, 1914- Mar.31, 1917
Loans to Dominions	£ 88,000,000	54,000,000	142,000,000
Loans to Allies	288,000,000	540,000,000	828,000,000
Total	£376,000,000	594,000,000	970,000,000

This money will probably be repaid at a later date and is not considered as a loss.

The approximate amount of British debt March 31,1917 is shown in the following table:

Approximate Amount of British Debt March 31,1917*

Description	Interest Rate %	Interest When Paid	Date of Maturity	Amount 000's £ Omitted
Long Term Debt:				
2½% Consols	2½	J.A.J.O.	-------------	280,466
2¾% Annuities	2¾	J.A.J.O.	-------------	2,709
2½% Annuities	2½	J.A.J.O.	-------------	21,639
Debts to Banks of England & Ireland	2½	--------	-------------	13,646
1st War Loan Nov.1914	3½	M and S	1925-28	62,774
2nd War Loan July 1915	4½	J " D	1925-28	(e)899,997
3rd War Loan Jan.1917	5	J " D	1929-47)	780,377
Do.Income Tax Compounded	4	A 15 O	1929-42)	
Total				2,061,608
Short Term Debt (arranged as far as possible according to maturity) :				
Treasury Bills (a)	4¾	--------	Prior to Mar.31, 1918	463,697
U.S.A.1-yr. Collateral Notes of Jan.,1917 (c)	5½	F and A	Feb. 1, 1918	20,000
U.S.A.2-yr. Collateral Notes of Sept.,1916	5	M " S	Sept. 1, 1918	50,000
2-yr. War Expend. Certif.(b)		--------	Je.4-Dec.31'18	23,561
U.S.A.2-yr. Collateral Notes of Jan.,1917 (c)	5½	F " A	Feb. 1, 1919	30,000
Exchequer Bonds	5	A " O	Oct. 5, 1919	34,263
U.S.A.3-yr. Collateral Notes of Oct.,1916	5½	A " O	Oct. 31, 1919	30,000
Exchequer Bonds	6	F " A	Feb. 16, 1920	(d e)170,952
Exchequer Bonds	3	M " S	Mar. 24, 1920	21,660
U.S.A. Loan Oct.1915(c)	5	A " O	Oct. 15, 1920	51,370
Exchequer Bonds	5	J " D	Dec. 1, 1920	(e)237,829
Exchequer Bonds	5	A " O	Oct. 5, 1921	(e) 62,496
U.S.A.5-yr. Collateral Notes of Oct.,1916	5½	A " O	Oct. 31, 1921	30,000
War Savings Certificates (15s 6d for one pound)	--	--------	Between Feb.20, '21 & Mar.31'22	74,000
"Other Debt"	--	--------	Within 5 yrs.	152,290
Ways & Means Advances	--	--------	-------------	217,526
Total				1,669,644
Other Liabilities				132,850
Grand Total				£3,864,102

*Statist, April 7, 1917, Vol. 89, p. 589. (Corrected)
(a)Rates of disc.range between approx. 4¾ & 6%. (b)Between Je.3, 1916 & July 14,1916,price of issue 90%; thereafter 89%. (c) Convertible. (d)Including £10 million issued in Japan. (e)Subject to deduction thru conversion into 4% & 5% War Loans of 1917.

A variety of paper was issued to appeal to all classes and to meet diverse conditions. War-savings certificates and bonds of small denominations gave the wage-earners an opportunity to invest. In this way the saving habit was fostered and a new interest in public affairs created. The benefits will no doubt continue after the period of the War.

(c) Revenue Versus Loans

The proper proportion to be maintained between revenue and loans is a difficult problem and one much debated. The practice of Great Britain since 1740 is shown by the following table:

18th and 19th Century Wars

Rev. % of Total	Total £	Revenue £	Debt £
	War of the Austrian Succession (1740-1748)		
33%	43,000,000	14,000,000	29,000,000
	Seven Years' War (1756-1763)		
27%	82,500,000	22,500,000	60,000,000
	War of American Secession(1775-1783)		
3%	97,500,000	3,000,000	94,500,000
	Revolutionary and Napoleonic Wars (1793-1814) (Historians differ but best authorities apportion cost on basis of 47% revenue and 53% charged to debt.)		
47%	831,000,000	390,600,000	440,400,000
	Crimean War (1854-1856)		
53%	67,500,000	35,500,000	32,000,000
	Boer War (1899-1902)		
32%	211,000,000	68,000,000	143,000,000

The proportion of revenue raised to the total cost of these wars covers a wide range from 3% to 53%. Since 3% however is an isolated instance it might be better to consider the percentages as from 27 to 53. The record of the present War is:

*August 1, 1914 - March 31, 1915 - - - - 37%
April 1, 1915 - March 31, 1916 - - - - 22%
April 1, 1916 - March 31, 1917 - - - - 26%

August 1, 1914 - March 31, 1917 - - - - 25%

The cost of the War advanced rapidly in 1915-1916 and the proceeds from revenue dropped in proportion. Only taxation of a "Utopian and Suicidal character", as Mr. Asquith said, could possibly have filled the huge gap created. Compared with other nations, 25% was a splendid showing for the proportion of revenue to the total debt to March 31st, 1917. But the people were able and ready to pay much more. The per cent was too small.

(d) Expenditure

From votes of credit the following are met:

(1) all expenses in connection with the Army, Navy and munitions, including the sum expended thereon in peace times,
(2) loans and advances to Dominions and Allies,
(3) sundry payments connected with the War, such amounts due the railways under the terms of control, purchases of food stuffs by the Government, and a host of miscellaneous charges.

Charges not met by votes of credit are:

(1) interest on the War debt,
(2) Ordinary disbursements of the country, consisting of

*April 1, 1914 - March 31, 1915 - - - 40%.

interest on the pre-War debt, payments to local taxation accounts, etc.,

(3) other consolidated fund services,

(4) expenditure upon the ordinary civil services, post office services, customs and excises, and inland revenue department.

A glance at the votes of credit show how the sums piled up:

Votes of Credit Sanctioned by Parliament

Year	Date of Treasury Notice	Amount in £ million	Total by years £
1914			
	August 5	100	
	November 12	225	
			325,000,000
1915			
	February 25	287	
	July 10	250	
	July 19	150	
	September 14	250	
	November 9	400	
			1,337,000,000 *
1916			
	February 17	420	
	May 18	300	
	July 19	450	
	October 10	300	
	November 30	400	
			1,870,000,000
1917			
	February 9	550	
			550,000,000
			£ 4,082,000,000

The expenditure advanced at a steadily increasing rate. The daily cost for the first sixty days (August 2 - September 30, 1914) averaged about one and one-fifth million pounds sterling and for the period from January 1st to March 31st, 1917, had climbed to over seven million pounds sterling.

*Excluding £16,427,623 repaid to the Bank of England.

The progression is evident from the following tabulation, worked out by quarter years; 000's omitted:

Daily Expenditure.*

Period	No. of Days.	Total for Period Stated. £	Per £ Day.	Total by Years £
1914-15				
Aug. 2 - Sept. 30,'14	60	71,683	1,195	
Oct. 1 - Dec. 31,'14	92	186,098	2,023	
Jan. 1 - Mar. 31,'15	90	240,578	2,673	
	242		2,070	498,359
1915-16				
Apr. 1 - June 30,'15	91	258,473	2,840	
July 1 - Sept. 30,'15	92	416,024	4,522	
Oct. 1 - Dec. 31,'15	92	425,420	4,624	
Jan. 1 - Mar. 31,'16	91	459,241	5,046	
	366		4,260	1,559,158
1916-17				
Apr. 1 - June 30,'16	91	444,560	4,885	
July 1 - Sept. 30,'16	92	460,242	5,003	
Oct. 1 - Dec. 31,'16	92	661,117	7,186	
Jan. 1 - Mar. 31,'17	90	632,194	7,024	
	365		6,022	2,198,113
Total	973		4,486	4,255,630

The expenditure of Great Britain included a variety of items, such as permanent charge of debt, interest on war debt, road improvement, payments to local taxation accounts, and miscellaneous services (these items made up the consolidated fund services), and votes of credit and supply. Later on the latter two were combined. The following table is drawn up to show the distribution of these items for the four years from 1913-1914 to 1916-1917, the year ending March thirty-first. Since it is easier for the eye to grasp the figures when they are not too greatly extended, the 000's have been omitted.

*Statist, July 7, 1917, p. 17. (Corrected).

Expenditure of Great Britain. *

	1917	1916	1915	1914
	£	£	£	£
Consolidated Fund Services:				
Permanent Charge of debt	19,783	20,338	20,497	24,500
Interest, etc. on war debt	107,467	39,911	2,172	----
Road Improvement Fund	-----	694	1,528	1,395
Payments to Local Taxation Accounts, etc.	9,896	9,757	9,529	9,734
Other Consolidated Fund Services	1,974	2,788	1,694	1,694
Total Consolidated Fund Services	139,120	73,488	35,420	37,323
Supply Services	88,132**	86,018	168,054ø	160,170ø
Votes of Credit	1,970,861**	1,399,652	357,000	-------
Grand Total	2,198,113	1,559,158	560,474	197,493

**Approximate
øIncludes outlays upon the Army and Navy now given in expenditure from Votes of Credit.

These vast sums were paid out of revenue and loans.

The revenue was collected as follows:

Revenue of Great Britain 000's omitted (year ending Mar.31)#

	1917	1916	1915	1914
	£	£	£	£
Customs	70,561	59,606	38,662	35,450
Excise	56,380	61,210	42,313	39,590
Estate, etc. Duties	31,232	31,035	28,382	27,359
Stamps	7,878	6,764	7,577	9,966
Land Tax	640	660	630	700
House Duty	1,940	1,990	1,930	2,000
Property and Income Tax (including Super-tax)	205,033	128,320	69,399	47,249
Excess Profits Duty (including Munitions Levy)	139,920	140	----	----
Land Value Duties	521	363	412	715
Receipts from Taxes	514,106	290,088	189,305	163,029
Postal Service	24,350	24,100	20,400	21,190
Telegraph Service	3,350	3,350	3,000	3,080
Telephone Service	6,400	6,450	6,250	6,530
Crown Lands	650	550	545	530
Receipts from Sundry Loans	8,056	2,432	1,277	1,580
Miscellaneous	16,517	9,797	5,917	2,304
Receipts from Non-Tax Revenue	59,322	46,679	37,389	35,214
Total	573,428	336,767	226,694	198,243

*Statist, April 7,1917, Vol. 89,p.589; # Do. p. 588.

The condensed financial statement shows the revenue and expenditure compactly. For the four years 1913-1914 to 1916-1917 the amounts are:*

Great Britain's Condensed Financial Statement(000's omitted)

	1914	1915	1916	1917
	£	£	£	£
Revenue	198,243	226,694	336,767	573,428
Expenditure Chargeable Against Revenue	197,493	560,474	1,559,158	2,198,113
Repayments to Bank of England	-------	-------	160,428	---------
Balance	Cr. 750	Dr. 333,780	Dr. 1,383,019	Dr. 1,624,685
Loans (net)	3,500	407,850	1,325,748	1,627,188
Balance	Cr. 4,250	Cr. 73,070	Dr. 57,271	Cr. 2,503
Miscel. Charges(net)	145	53	605	1,642
Balance	Cr. 4,105	Cr. 73,017	Dr. 57,876	Cr. 861
Cash Bal.Bro't.F'rw'd.	6,329	10,434	83,451	25,575
Cash Balance Carried F'rw'd.	10,434	83,451	25,575	26,436

Confining the figures to the period of the War and giving just the bare facts, the statement is as follows:#

August 1,1914 - March 31,1915

	£		£
Total Spent	498,359,980	Raised by Rev.	171,758,744
Increase in Exchequer Balance	78,390,564	Net Borrowings	404,991,800
Total	576,750,544		576,750,544

April 1,1915 - March 31,1916

Total Spent	1,559,158,377	Raised by Rev.	336,766,824
Decrease in Exchequer Balance	57,875,946	Net Borrowings	1,164,515,607
Total	1,501,282,431		1,501,282,431

*Statist, April 7, 1917, Vol. 89, p. 589.
#The Economist (London),October 6, 1917, p. 486.

April 1,1916 - March 31,1917

	£		£
Total Spent	2,198,112,710	Raised by Rev.	573,427,582
Increase in Exchequer Balance	860,853	Net Borrowings	1,625,545,981
Total	2,198,973,563		2,198,973,563

August 1,1914 - March 31,1917

Total Spent	4,255,631,067	Raised by Rev.	1,081,953,150
Increase in Exchequer Balance	21,375,471	Net Borrowings	3,195,053,388
Total	4,277,006,538		4,277,006,538

The total expenditure to March 31, 1917 equaled £4,255,631,067 - a sum so great as almost to stagger the imagination, yet how small a part of the grand total this figure may be, no one knows. The aggregate direct cost of the twenty greatest wars of the century and a quarter preceding the outbreak of the present struggle was not in excess of £4,400,000,000.*

Gladstone in 1855, while Chancellor of the Exchequer, said: "The expenses of a war are a check which it has pleased the Almighty to impose upon the ambition and lust of conquest that are inherent in so many nations. . . . . . . The necessity of meeting from year to year the expenditure which war entails is a salutary and a wholesome check". The statement has an odd ring now.

(e) British Solvency

In spite of the appeal of the Government, the British people did not practice rigid economy and save all they could. High wages caused a feeling of prosperity with consequent spending. By the close of the fiscal year 1916-1917, efforts on the part of the Government to encourage maximum production and

*The Independent, February 19, 1917, p. 299.

a reduction of consumption to the lowest practical level began to bear fruit. There was still, however, a great deal of waste and lack of co-operation.

It is estimated that the British could stand a yearly tax of one billion pounds sterling.* Loans could be floated to a vast amount. If other means failed the final recourse would be to a capital tax - the general liquidation of private property for state ends. No one believes that such an extreme measure will have to be resorted to even though circumstances become very much worse than they now are. The Government has declared that at all events British credit , which Mr. Asquith says is their most valuable asset, must be maintained.# On the taxation basis of 1916-1917, taking account of the decrease in revenue on the return of peace from such sources as excess profits, the permanent revenue would provide for ordinary expenditures, debt charges, and pensions, with a surplus for the reduction of the debt of about eighty-five million pounds sterling a year. Mr. McKenna pointed out that the Government never borrows "one pound without making provision in advance by new taxation sufficient to cover the interest and a liberal sinking fund".

The entrance of the United States into the War in April, 1917, relieved Great Britain. Loans were then made direct to the Allies by America. Furthermore, the Dominions made arrangements to finance much of their portion of the burden from their own resources. This improvement in the financial

*Review of Reviews, December, 1915, "Speeding the Silver Bullets", L. R. Frewen.
#Economist, Vol. 82, pp. 290-291.

situation was partly offset by the growing cost of the War.

In the struggle with France specie payments were early suspended and not again fully resumed until 1820. Throughout the present War Great Britain has never failed to pay in gold - a record not equaled by any of the other belligerent governments in the War up to March 31, 1917. * The foundation of the national credit seems "unassailably secure".

*Statist, September 16, 1916, p. 505.

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